

E-002/D-89-911 ACCEPTING CHANGE IN DECOMMISSIONING ACCRUAL AMOUNT TO REFLECT PASSAGE OF TIME AND DEFERRING CONSIDERATION OF OTHER PROPOSED CHANGES

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Darrel L. Peterson	Chair
Cynthia A. Kitlinski	Commissioner
Norma McKanna	Commissioner
Robert J. O'Keefe	Commissioner
Patrice Vick	Commissioner

In the Matter of Northern States Power  
Company's Request for Certification of  
Decommissioning Accruals for the First  
Seven Months of 1990

ISSUE DATE: February 28, 1990

DOCKET NO. E-002/D-89-911

ORDER ACCEPTING CHANGE IN  
DECOMMISSIONING ACCRUAL  
AMOUNT TO REFLECT PASSAGE OF  
TIME AND DEFERRING  
CONSIDERATION OF OTHER PROPOSED  
CHANGES

PROCEDURAL HISTORY

On February 26, 1981, the Commission issued its ORDER FOR DEPRECIATION CERTIFICATION OF EXPECTED DECOMMISSIONING COSTS, Docket No. E-002/D-79-956. That Order required Northern States Power Company (NSP or the Company) to provide the Commission with an annual review of NSP's decommissioning accrual for its three Minnesota nuclear power plants. The Commission further required the Company to submit, every five years, a detailed review of decommissioning cost studies and funding methodologies.

The Commission later recognized that more frequent analysis was necessary to monitor cost escalation, and the five year review requirement was changed to a three year review. FINDINGS OF FACT, CONCLUSIONS OF LAW AND ORDER, Docket No. E-002/D-86-604.

Pursuant to Commission Orders, NSP filed its 1989 annual review of nuclear decommissioning accrual. Because the Company will be changing its present internal funding method to external funding in August of 1990, NSP was only required to propose accruals for the first seven months of 1990. In its filing, NSP proposed changes in its accruals that reflected a lower rate of return, a higher escalation rate, and longer remaining lives of plants, as well as the passage of time. The Department of Public Service (the Department) recommended approval of all the Company's proposed changes. No other parties submitted comments.

The matter came before the Commission on February 13, 1990.

## FINDINGS AND CONCLUSIONS

### Rate of Return on Internal Fund

The tax-adjusted rate of return is a factor used to determine the credit that customers receive for their decommissioning contributions that are invested in NSP's operations. NSP proposed changing the present 8.64% rate of return to 8.13%. NSP reasoned that its decommissioning rate of return should parallel the rate of return proposed in its interim rate filing in the current general electric rate case, Docket No. E-002/GR-89-865.

The Department agreed with the Company's reasoning and recommended approving NSP's proposed 8.13% rate of return.

The Commission finds that NSP's current rate of return should remain unchanged at this time. Using an interim rate of return request to set the internal funding rate of return has not been authorized by the Commission in the past. The most appropriate method of setting an internal funding rate of return is by basing it on the final authorized rate of return used in setting ongoing rates in the general rate case.

The Commission finds that NSP's composite income tax rate should also remain unchanged. NSP proposed a change in its jurisdictional tax rate to reflect a change in jurisdictional makeup of its customers. The Department recommended approval of the Company's proposed change from the present 39.95% composite tax rate to a rate of 39.41%. The Commission finds that the composite income tax rate is merely one computational factor in determining the Company's rate of return. Since the Commission has determined that the Company's rate of return should remain unchanged, the Company's proposed change in composite income tax rate will not be approved.

### Escalation Rate

Because the last triennial decommissioning cost study was filed in 1986, current decommissioning cost estimates are based on 1986 dollar values. In order to project cost estimates for decommissioning which will occur in the future, an escalation factor must be applied to the 1986 values. The escalation factor must be proposed by the utility and approved by the Commission, because there is no generally accepted decommissioning escalation rate in the industry.

NSP proposed a change in its escalation rate from the current 5.5% to 6.0%. NSP used a number of inflation indicators to arrive at its proposed figure, including general price indicators and the Nuclear Regulatory Commission's (NRC's) escalation equation. The Department approved of the Company's analysis and recommended approval of its proposed escalation rate change.

The Commission finds that the proposed change in escalation rate would have a significant impact on both the amount of decommissioning accrual and the revenue requirement. Because of the impact of the escalation rate on funding and depreciation expense, the Commission finds that consideration of proposed changes should be deferred until the next three year review. NSP must submit its next three year review to the Commission on or before May 1, 1990. When that triennial cost study is filed, interested parties will have the opportunity to review the filing and make

comments and recommendations. The Commission will reject any proposed change in the escalation rate in this filing pending review of the Company's next three year cost study.

### Remaining Lives of Plant

The Nuclear Regulatory Commission has modified its nuclear plant operating licenses. Whereas the forty-year span of the license formerly commenced at the start of construction of the facility, it now commences from the start of plant operations. The result of this change is an extension of remaining plant lives for the three Minnesota facilities. Extensions range from 3.3 years for the Monticello plant to 6.3 years for Prairie Island 2.

In its 1989 annual filing, NSP proposed changing the remaining lives of its plants for decommissioning accrual purposes to correspond with the NRC's operating license extensions. The Department recommended approval of this change.

The Commission finds that longer plant lives will have the effect of lowering the accrual amount and also the revenue requirement. While plant life extensions may ultimately be appropriate, these changes should be considered along with other changes at the three year review. This will be the most logical time for the Commission to consider all proposed changes as they relate to each other and to the decommissioning accrual calculation.

### ORDER

1. NSP's nuclear decommissioning accrual as filed for the year 1990 is hereby approved and adopted to reflect the passage of time only. Monthly accruals of \$2,664,250 are to be credited to the reserve for nuclear power plant decommissioning and debited to depreciation expense, beginning January, 1990.

2. Present factors of remaining plant lives, escalation rate, and rate of return on internal fund will remain unchanged pending Commission consideration of these factors during NSP's next three year cost review.
3. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Lee Larson  
Acting Executive Secretary

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